

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WEST CARROLL)
WATER DISTRICT, CARROLL COUNTY,)
KENTUCKY, (1) FOR A CERTIFICATE)
OF CONVENIENCE AND NECESSITY)
AUTHORIZING SAID DISTRICT TO CON-)
STRUCT ADDITIONS TO A WATER DIS-)
TRIBUTION SYSTEM PURSUANT TO KRS)
CHAPTER 74 AND 106; (2) SEEKING)
APPROVAL OF A NEW SCHEDULE OF)
RATES AND CHARGES TO BE CHARGED)
FOR WATER SERVICE; AND (3) SEEKING)
APPROVAL OF THE ISSUANCE OF CER-)
TAIN SECURITIES)

CASE NO. 8312

O R D E R

On August 10, 1981, West Carroll Water District ("West Carroll") filed an application with this Commission seeking a certificate of convenience and necessity permitting it to construct additions to its water distribution system, approval of the proposed plan of financing of the project, and approval of an increase in water rates charged to its customers. The proposed rates would produce additional revenues of \$30,089 annually, an increase of 64 percent above normalized test year operating revenues. Based on the determination herein, the annual revenue will increase by \$5,962, an increase of 13 percent.

On August 24, 1981, the Commission issued an order wherein the matter was set for hearing on November 12, 1981, and West Carroll was directed to give notice to its customers of the proposed rate increase and the scheduled hearing.

The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky. On January 20, 1982, the Commission issued an Interim Order which approved the proposed waterworks construction project and the proposed plan of financing. This order addresses the proposed increase in water rates.

COMMENTARY

West Carroll is a water distribution system organized and existing under the laws of the Commonwealth of Kentucky serving approximately 300 consumers in Carroll and Trimble Counties, Kentucky. West Carroll purchases its water from the City of Carrollton, Henry County Water District #2, and Trimble County Water System, of Kentucky.

TEST PERIOD

West Carroll proposed and the Commission has adopted the 12-month period ending December 31, 1980, as the test period for determining the reasonableness of the rates approved herein. Pro forma adjustments found reasonable and proper for rate-making purposes have been included.

REVENUES AND EXPENSES

West Carroll proposed several adjustments to revenues and expenses as reflected on page 7 of the West Carroll Water

District Billing Analysis of October 6, 1981. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Operating Revenue

The Commission has increased the revenue from water sales by \$25,390 to \$72,767 to reflect the normalization of revenue based on the 155 additional customers which will result from the proposed construction project. In calculating the estimated revenue from the additional residential customers the Commission has used an average usage per customer of 3,882 gallons per month based on the billing analysis.

Miscellaneous Income

West Carroll proposed to decrease its miscellaneous operating income by \$73. As there was no explanation or support for the adjustment in the record, the Commission has excluded it for rate-making purposes.

Purchased Water Expense

West Carroll proposed to increase its purchased water cost by \$4,761 to reflect the increased purchases necessary to serve 100 of the new customers. The proposed adjustment would increase purchased water cost to \$13,950. The Commission has determined that the adjusted purchased water cost should be \$14,667. The Commission has included the additional purchases required to serve 155 additional customers using an average 3,882 gallons per month.

The Commission has further adjusted the total purchases to allow a maximum 15 percent line loss. During the test year West Carroll incurred actual line losses of 28 percent of purchases which it stated were largely a result of an undetected leak in the Little Kentucky River area that has since been repaired. The Commission is of the opinion that its established policy of allowing a maximum 15 percent line loss for rate-making purposes should be applied in this instance.

Maintenance Expense

West Carroll proposed an adjustment to maintenance expense of \$2,197 to exclude the extraordinary expense incurred for repair of a major leak in the system and to include the estimated additional cost to serve the new customers. The estimated increase per customer was derived by dividing the maintenance expense, after excluding the extraordinary expense, by the number of customers at the end of 1980. Using this methodology the Commission has allowed maintenance expense of \$10,354.

Other Expenses

West Carroll proposed adjustments totaling \$4,960 for increases in accounting and collecting expense, supplies and operating expense, administrative salaries, and expense for outside services based on an estimate of costs to serve 100 additional customers. The Commission is of the opinion that estimated adjustments do not reasonably project the level of expense that West Carroll may incur in the future. Therefore,

the Commission has determined a cost per customer for each of the accounts by dividing the test year expense by the number of customers at the end of the test year. This amount was applied to the 155 proposed customers to provide an adjustment of \$4,613.

Property Insurance Expense

West Carroll proposed an adjustment of \$171 to increase property insurance expense from the test year level of \$679. West Carroll did not provide any details for this adjustment. The Commission has adjusted this expense based on the test year property insurance cost per dollar of plant in service at the end of the test year. This amount was applied to the cost of the construction approved in this case to provide an adjustment of \$366.

General Plant Maintenance Expense

West Carroll proposed an adjustment of \$1,500 for maintenance of general plant. The Commission is of the opinion that West Carroll did not adequately support this adjustment through evidence in the record. Therefore, it has not been allowed for rate-making purposes.

Depreciation Expense

West Carroll proposed an adjustment of \$7,624 to increase depreciation expense to \$18,795 based on the plant additions proposed in this proceeding. This reflects depreciation on total plant using a composite rate of approximately 2 percent.

It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of original cost of the plant in service less contributions in aid of construction. The record reflects that the level of contributions in aid of construction at the end of the test year was \$379,942 which is approximately 53 percent of the total cost of utility plant in service. In determining the pro forma depreciation expense the Commission has utilized the depreciation rates proposed by West Carroll and excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$8,909.

Miscellaneous Expense

West Carroll proposed an adjustment of \$450 for miscellaneous expense. The Commission is of the opinion that this adjustment is speculative and has therefore determined the projected expense on a per customer basis applied to the 155 additional customers. This results in a pro forma expense of \$76.

Interest Income

West Carroll proposed an adjustment of \$203 to reduce interest income from the test year level of \$1,903. The Commission is of the opinion that West Carroll did not adequately support this adjustment through evidence in the record and therefore, it has not been allowed for rate-making purposes.

Interest Expense

West Carroll proposed an increase of \$5,250 in interest expense for the \$114,000 in additional indebtedness to be assumed as a result of the proposed construction project, adjusted for the decrease in interest expense on previous debt. The Commission has increased this adjustment by \$250 to include the annual interest on long-term debt outstanding at the end of the test year as well as the additional debt to be assumed.

The effect of the allowed adjustments on the operations of West Carroll is as follows:

	<u>Actual Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenue	\$ 47,950	\$ 25,390	\$ 73,340
Operating Expenses	39,071	9,583	48,654
Operating Income	<u>\$ 8,879</u>	<u>\$ 15,807</u>	<u>\$ 24,686</u>
Interest on Long-Term Debt	16,940	5,500	22,450
Interest Income	<u>1,903</u>	<u>0</u>	<u>1,903</u>
Net Income	<u>\$ (6,168)</u>	<u>\$ 10,307</u>	<u>\$ 4,139</u>

REVENUE REQUIREMENTS

West Carroll's debt service based on outstanding debt at the end of the test year and additional indebtedness incurred as a result of the proposed construction is \$32,515. Using adjusted test period results, including interest income of \$1,903, West Carroll's debt service coverage was approximately .93. The Commission is of the opinion that this coverage is inadequate and will adversely affect the financial condition

of the utility. Therefore, additional revenues of \$5,926 are required to improve West Carroll's debt service coverage to a reasonable level of 1.2. Based on test period results, total operating revenues of \$79,266 will be sufficient to allow the utility to pay its operating expenses, meet its debt service requirements and maintain an adequate surplus.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

(1) The rates in Appendix A are fair, just and reasonable rates for West Carroll in that they will produce annual revenue from water sales of approximately \$79,266 and should be approved. This revenue along with interest income of \$1,903 will be sufficient to meet West Carroll's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

(2) The rates proposed by West Carroll would produce revenue in excess of that found reasonable herein and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates in Appendix A, attached hereto and made a part hereof, are approved for service rendered by West Carroll on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by West Carroll are hereby denied.

IT IS FURTHER ORDERED that within 30 days from the date of this Order West Carroll shall file with this Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky this 15thday of March, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voh
Chairman

Katherine Randall
Vice Chairman

Ann Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8312 DATED MARCH 15, 1982

The following rates are prescribed for customers served by West Carroll Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES

The rates for water service rendered by West Carroll to its customers shall be as follows:

<u>Gallons Per Month</u>		<u>Monthly Charge</u>
First	2,000 Gallons	\$8.50 (minimum monthly charge)
Next	3,000 Gallons	3.25 per 1,000 Gallons
Next	5,000 Gallons	2.25 per 1,000 Gallons
Next	90,000 Gallons	1.25 per 1,000 Gallons
Over	100,000 Gallons	.90 per 1,000 Gallons